

SECRETARY'S RECORD, NEBRASKA PUBLIC SERVICE COMMISSION

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of Kinder Morgan,) Application No. NG-0040
Inc., Houston, Texas; KM Retail)
Utilities Holdco LLC, Houston,)
Texas; Source Gas Distribution)
LLC, Lakewood, Colorado,) APPROVED
seeking approval of asset)
transfer of jurisdictional)
utility assets.) Entered: February 27, 2007

APPEARANCES:

For the Applicants:
Stephen M. Bruckner
FRASER STRYKER PC LLO
500 Energy Plaza
409 S. 17th Street
Omaha, NE 68102

Public Advocate:
Roger P. Cox
HARDING SHULTZ & DOWNS
800 Lincoln Square
121 South 13th Street
Lincoln, NE 68501

And

Bud Becker
Kinder Morgan, Inc.
370 Van Gordon Street
Lakewood, CO 80228

For the Commission:
Nichole A. Underhill
300 The Atrium
1200 N Street
Lincoln, NE 68509

BY THE COMMISSION:

On October 3, 2006, an Application was filed with the Nebraska Public Service Commission (the "Commission") by Kinder Morgan, Inc. ("Kinder Morgan"), KM Retail Utilities Holdco LLC ("KM Retail Holdco") and Source Gas Distribution LLC f/k/a KM Retail LLC ("Source Gas Distribution") seeking approval of (1) the proposed transfer of Kinder Morgan's Nebraska franchises and certificate of convenience and Nebraska retail jurisdictional utility assets to Source Gas Distribution (the "Asset Transfer"), and (2) the proposed change of control of Source Gas Distribution resulting from the Merger Agreement entered into among Kinder Morgan, Knight Holdco, LLC, and Knight Acquisition Company pursuant to which Kinder Morgan will become a privately-owned company (the "Buy-Out Transaction").

Notice of the Application was published in *The Daily Record*, Omaha, Nebraska, on October 6, 2006. A Petition for formal intervention was timely filed by the Public Advocate and was granted by the Commission in an order issued in the above-captioned docket on November 21, 2006.

On February 12, 2006, the Applicants and Public Advocate filed with the Commission a Stipulation containing Conditions of Approval ("Stipulation") and resolving all issues in this proceeding between the parties. A hearing was held on the above-captioned Application on February 14, 2007, in the Commission Hearing Room, Lincoln, Nebraska. Appearances at the hearing are indicated above.

THE PARTIES:

Kinder Morgan provides retail natural gas distribution service to approximately 94,000 customers in about 180 Nebraska municipalities, located primarily in the western two-thirds of the state. Kinder Morgan's retail distribution operations in Nebraska employ approximately 230 persons.

KM Retail Holdco is a wholly-owned subsidiary of Kinder Morgan and Source Gas Distribution is a limited liability company and wholly-owned indirect subsidiary of Kinder Morgan established under Delaware law.

THE TRANSACTION:

In connection with the Asset Transfer, the jurisdictional utility assets of Kinder Morgan's local natural gas distribution business in Nebraska, Wyoming, and Colorado will be transferred to Source Gas Distribution. All membership interests in Source Gas Distribution are wholly owned by KM Retail Holdco, and would continue to be so owned after the Asset Transfer. After the Asset Transfer, Source Gas Distribution would become the "jurisdictional utility" under the State Natural Gas Regulation Act (the "Act") Neb. Rev. Stat. §§ 66-1801, et seq., replacing Kinder Morgan.

On August 28, 2006, Kinder Morgan, Knight Holdco and Knight Acquisition signed a merger agreement pursuant to which, if certain conditions are satisfied or waived, Knight Acquisition will be merged into Kinder Morgan, with Kinder Morgan continuing as the surviving company in the merger. Immediately following the merger, Kinder Morgan will become a privately-held company, wholly owned by Knights Holdco or one or more of its subsidiaries. Immediately following the merger, Knight Holdco will be owned by entities and individuals of the Investor Group, which includes current and former directors or officers of Kinder Morgan. Kinder Morgan proposes to consummate the Asset Transfer in connection with the Buy-Out Transaction.

E V I D E N C E

In support of their Application, the Applicants offered the pre-filed testimony of Daniel E. Watson, President of Kinder Morgan Retail, and Kimberly A. Dang, Chief Financial Officer of Kinder Morgan, Inc.

On behalf of the Public and the ratepayers of Kinder Morgan, the Public Advocate, Roger Cox, offered the pre-filed testimony of William L. Glahn, a consultant with Dahlen, Berg Consulting, Inc. Further, Mr. Cox testified at the hearing concerning the Application in the above-captioned matter.

Mr. Watson and TJ Carroll, Vice President of Kinder Morgan, also testified at the hearing on behalf of Applicants. By agreement of the parties, the testimony at the hearing in Docket No. NG-0039 regarding the Asset Transfer was incorporated and received into evidence in support of the above-captioned Application.

Mr. Watson testified regarding the effect of the Asset Transfer and Buy-Out Transaction on the utility's ongoing operations in Nebraska. Mr. Watson testified that Source Gas Distribution will adopt Kinder Morgan's current tariffs, and that no changes to rates and terms and conditions of service will occur as a result of the Asset Transfer or Buy-Out Transaction. Mr. Watson also testified that the management of Kinder Morgan and the utility operations is not expected to change as a result of the Asset Transfer or Buy-Out Transaction. Mr. Watson will continue as President of the utility operations after the transactions are completed, and his current retail utility management team will continue in their respective roles. Mr. Watson testified that very little will change in the utility's day-to-day operation as a result of the Asset Transfer and Buy-Out Transaction, aside from the utility's name change to Source Gas Distribution.

Mr. Watson further testified that no changes in the utility facilities, offices and headquarters will occur as a result of these transactions. He also explained that the books and records of the Kinder Morgan Retail unit will be transferred to and assumed by Source Gas Distribution upon closing of the Asset Transfer, and Source Gas Distribution will assume any accumulated deferred income tax expense as part of that book transfer. Mr. Watson further testified that no acquisition, transaction, or premium costs as a result of the subject transactions will be

recovered through rates or passed on to the ratepayers. He further stated that the transactions will not affect the utility's access to capital or cost of capital, and the utility's capital structure and cost of capital for ratemaking purposes will remain materially unchanged. Mr. Watson also answered the questions posed by the Commission's consultant, GDS, regarding the transactions described in the Application.

Finally, Mr. Watson testified that the Asset Transfer, including the transfer of Kinder Morgan's franchises and certificate of convenience, is in the public interest, and the Buy-Out Transaction will not adversely affect the ability of the utility to serve its ratepayers.

In his testimony, Mr. Carroll explained in detail the nature of the Buy-Out Transaction, emphasizing that the Buy-Out Transaction would result in a change of ownership of Kinder Morgan from a publicly-owned to privately-owned business, but not a change in the ownership, management or operation of the retail utility.

Mr. Cox commented concerning the Asset Transfer and Buy-Out Transaction and the testimony of Mr. Glahn. Mr. Cox stated that both the Public Advocate and the consultant, Mr. Glahn, did not object to the approval of the Application by the Commission and the finding by the Commission that the Asset Transfer and Buy-Out Transaction would not adversely affect Nebraska ratepayers or the ability of the utility to serve its ratepayers.

The Applicants and the Public Advocate, entered into a stipulated agreement prior to the February 14, 2007 hearing. In the Stipulation, the Applicants recommend approval of the application and the Public Advocate offers no objection to the Commission approving the Application. Further, all remaining issues between the parties in the above-captioned proceeding were resolved in the Stipulation. The Stipulation, signed by all parties, was admitted into evidence at the February 14, 2007 hearing. The Stipulation is attached to this order as **Exhibit A** and is incorporated into the terms of this order.

O P I N I O N A N D F I N D I N G S

The State Natural Gas Regulation Act ("the Act") Neb. Rev. Stat. §§ 66-1801 et seq., requires the Commission to approve the reorganization or change of control of any jurisdictional

utility serving customers in Nebraska. Specifically the Act provides,

The commission shall not approve any proposed reorganization or change of control if the commission finds, after public notice and public hearing, that the reorganization or change of control will adversely affect the utility's ability to serve its ratepayers. Neb. Rev. Stat. § 66-1828(1) (2003 Supp.).

Likewise, the Act requires Commission approval of the transfer of any franchise or certificate of convenience granted to a jurisdictional utility serving customers in Nebraska. Specifically, the Act provides:

No franchise or certificate of convenience granted to a jurisdictional utility shall be assigned, transferred, or leased unless the assignment, transfer, or lease has been approved by the commission as being consistent with the public interest. Neb. Rev. Stat. § 66-1821 (2003 Supp.).

With limited exceptions, Kinder Morgan's current management team and employees will continue in their positions after the Asset Transfer and the Buy-Out Transaction. Kinder Morgan's experience in the management and operation of a retail natural gas distribution utility will remain.

The Applicants state that Kinder Morgan's Nebraska utility operations will continue to have access to adequate capital. The transfer of Kinder Morgan's public utility assets into a separate legal entity, Source Gas Distribution, will provide a level of separation between the public utility business and Kinder Morgan's non-utility businesses, providing financial stability and protection for the ratepayers of Kinder Morgan.

Additionally, the Applicants stated that there will be no change in any of the rates or terms and conditions of Kinder Morgan's current Nebraska Gas Tariff as a result of the Asset Transfer or Buy-Out Transaction. Further, the Applicants will not seek cost recovery from Nebraska ratepayers of any transaction or transition costs related to the transactions.

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Finally, the Applicants state that the proposed Asset Transfer and Buy-Out Transaction will result in no changes to Kinder Morgan's quality of service and the day-to-day operation of the utility. Current gas supply contracting and management, systems operation, maintenance activities, safety, customer service and billing operations will all remain unchanged.

Separate and distinct from the approval sought in the above-captioned proceeding, Kinder Morgan has entered into an agreement to sell its ownership interest in its local utility business in Nebraska, Wyoming and Colorado, and other assets, to Source Gas LLC, an entity affiliated with the General Electric Company ("GE"). Commission approval of the sale of Kinder Morgan's utility business to the GE entity are the subject of an Application, Docket No. NG-0039, pending before the Commission. If the sale of Kinder Morgan's utility business to the GE entity is consummated, then the relief sought by the Applicants herein will become moot and this order will be of no force and effect. Should the sale of Kinder Morgan's utility business to the GE entity not be consummated, however, then the order entered in Docket No. NG-0039 by this Commission will be of no force and effect and this order will govern the Asset Transfer and Buy-Out Transaction.

Based on the evidence, we find that the transaction will not adversely affect the ability of Kinder Morgan to serve its ratepayers and is consistent with the public interest. The Application should be granted.

O R D E R

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that the Application in Docket No. NG-0040 be and is hereby, approved.

IT IS FURTHER ORDERED that the Stipulation attached to this order as **Exhibit A**, be and is hereby approved, and Applicants shall comply with all applicable terms and conditions in the Stipulation set forth in **Exhibit A**.

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IT IS FURTHER ORDERED that upon consummation of the transactions between Kinder Morgan and the Source Gas Companies which are the subject of the proceedings in Docket No. NG-0039, this order and the Stipulation attached hereto as **Exhibit A** shall be of no force and effect. Should said transaction not be consummated, this order shall in such instance govern the matters addressed herein.

MADE AND ENTERED at Lincoln, Nebraska, this 27th day of February, 2007.

NEBRASKA PUBLIC SERVICE COMMISSION

COMMISSIONERS CONCURRING:



//s// Rod Johnson

//s// Frank E. Landis

Chairman:



ATTEST:



Executive Director

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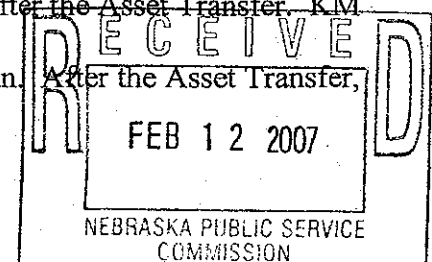
BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE JOINT)	
APPLICATION OF KINDER MORGAN,)	Application No. NG-0040
INC., KM RETAIL UTILITIES HOLDCO)	
LLC, AND SOURCE GAS DISTRIBUTION)	
LLC FOR APPROVAL OF ASSET)	
TRANSFER OF JURISDICTIONAL)	STIPULATION
UTILITY ASSETS)	
)	

I. SUMMARY

Kinder Morgan, Inc. ("Kinder Morgan"), KM Retail Utilities Holdco LLC ("KM Retail Holdco") and Source Gas Distribution LLC f/k/a KM Retail LLC ("Source Gas Distribution") (collectively, "Applicants"), and the Public Advocate for the State of Nebraska ("Public Advocate") hereby submit this stipulation to the Nebraska Public Service Commission ("Commission") pursuant to NEB.REV.STAT. § 66-1821 and other applicable provisions of the State Natural Gas Regulation Act (the "Act"). NEB. REV. STAT. § 66-1821 provides that no franchise or certificate of public convenience shall be transferred or assigned unless the assignment has been approved by the Commission as being consistent with the public interest.

The Applicants seek approval by the Commission pursuant to Section 66-1821 of the Act for the transfer of the Nebraska jurisdictional utility assets of Kinder Morgan, Inc. to Source Gas Distribution (the "Asset Transfer"). The jurisdictional utility assets of Kinder Morgan's distribution utilities in Wyoming and Colorado also will be transferred to Source Gas Distribution in connection with the Asset Transfer. Source Gas Distribution is a limited liability company established under Delaware law. All membership interests in Source Gas Distribution are owned by KM Retail Holdco, and will continue to be so owned after the Asset Transfer. KM Retail Holdco in turn is a wholly-owned subsidiary of Kinder Morgan.



Source Gas Distribution will become the "jurisdictional utility" under the Act in Nebraska, replacing Kinder Morgan. Kinder Morgan proposes to consummate the Asset Transfer to Source Gas Distribution in connection with a merger agreement, dated August 28, 2006, pursuant to which Kinder Morgan will become a privately-owned company (the "Buy-Out Transaction").

Applicants recommend approval of the Asset Transfer to Source Gas Distribution, including the transfer of any certificate of convenience. After a thorough review of the Application, testimony, discovery responses, and other relevant documents submitted by Applicants, and contingent upon Commission consideration of the issues identified by the Public Advocate's testimony in this proceeding, the Public Advocate does not object to the Commission issuing an order finding that the proposed transfer of Kinder Morgan's Nebraska retail utility assets, including any certificate of convenience, to Source Gas Distribution is consistent with the public interest.

NEB.REV.STAT. § 66-1828 provides that "no reorganization or change of control of a jurisdictional utility shall take place without prior approval by the Commission." For purposes of this proceeding only, the Applicants and the Public Advocate stipulate and agree that, the proposed Buy-Out Transaction, by which Kinder Morgan will become a privately-held corporation, will not adversely affect the utility's ability to serve its ratepayers within the meaning of Section 66-1828 of the Act.

Accordingly, Applicants respectfully request the Commission to issue an order (a) approving the Asset Transfer pursuant to Section 66-1821 of the Act and (b) approving the Buy-Out Transaction pursuant to Section 66-1828 of the Act. The Public Advocate does not object to the issuance of such an order.

II. JURISDICTION

The Commission generally has jurisdiction over this Application pursuant to NEB.REV.STAT. § 66-1804 of Act. Specifically, jurisdiction exists pursuant to Section 66-1821 governing the transfer or assignment of a certificate of convenience, and Section 66-1828, which requires prior approval by the Commission of any proposed reorganization or change of control of a jurisdictional utility, as defined under the Act.

III. PROCEDURAL HISTORY

On October 3, 2006 Applicants filed an Application in the above-captioned proceeding.

On October 3, 2006, Applicants filed testimony in support of the Application. Specifically, Applicants submitted the "Prepared Direct Testimony of Daniel E. Watson" (Exhibit 4 to Application) and "Prepared Direct Testimony of Kimberly Allen Dang" (Exhibit 5 to Application).

On October 3, 2006, Discovery on the Application and Testimony filed in this case began.

On October 6, 2006, the Commission issued its "Notice of Application" order, which was published in *The Daily Record*.

November 6, 2006, was established by the Commission as the deadline for filing petitions for intervention. The Public Advocate of Nebraska filed a "Petition For Formal Intervention" on November 3, 2006, which was granted in the Commission's November 21, 2006, Planning Conference Order.

On November 13, 2006, the Commission held its Planning Conference at the Commission. Thereafter, the Parties and Commission Staff held a discussion regarding

discovery and additional areas of review regarding the investigation and review of the Application.

On November 21, 2006, the Commission issued its Planning Conference Order establishing a procedural schedule for this proceeding. The Commission further granted the formal and informal interventions, adopted discovery procedures, and set a Technical and Prehearing Conference to be held on January 17, 2007, in the Commission's Library. The Commission ordered a Hearing to be held on February 14, 2007, at 10:00 a.m. in the Commission's Hearing Room.

On November 20, 2006, in a related proceeding pending before the Commission at Docket NG-0039, Applicants submitted responses to informal discovery requests submitted by the Public Advocate during various informal meetings or conference calls regarding the Application. Included in the Applicants' responses to the Public Advocate's informal discovery requests were copies of the Applicants' responses to the initial discovery requests served on the Applicants in companion proceedings pending in the State of Colorado and State of Wyoming.

On December 22, 2006, the Public Advocate served its First Set of Formal Data Request on Applicants. Applicants served responses to the First Set of Formal Data Requests on December 29, 2006.

Between October 3, 2006, and the present, Applicants and the Public Advocate held various discussions and telephone conference calls regarding the Application and areas of discovery pursuant to the Public Advocate's review of the Application.

On January 16, 2007, the Public Advocate filed a "Notice of Filing of Written Testimony of William L. Glahn."

The parties agree to jointly request a promptly scheduled hearing for the Commission to consider the Stipulation. ("Hearing").

IV. STIPULATIONS

The Applicants and Public Advocate jointly stipulate to the following:

Application

1. The Application and associated exhibits filed by Applicants will be received into evidence.

Testimony

2. The Parties agree that the pre-filed testimony of Daniel E. Watson and Kimberly Allen Dang in support of the Application will be received into evidence.

3. The Parties waive their right to cross-examine Mr. Watson and Ms. Dang, and agree that they will not be required to appear at the Hearing in this proceeding.

4. The Parties agree that the filed testimony of William L. Glahn, on behalf of the Public Advocate, will be received into evidence.

5. The Parties waive their right to cross examine William L. Glahn, Witness for the Public Advocate, and agree that he will not be required to appear at the Hearing in this proceeding.

6. The Parties agree that all discovery requests and responses thereto shall be received into evidence (with the proviso that information disclosed therein which has been designated as "Confidential" pursuant to the Protective Order previously entered herein shall be treated in accordance with the terms of such Protective Order unless the Commission shall determine that any information so designated is not entitled to protection and should be made part of the public record).

Hearing Procedures

7. The Parties agree that the Hearing may be conducted in a "legislative" style format.
8. The Parties agree that Mr. Daniel E. Watson and/or other representatives of Kinder Morgan may make a brief presentation on behalf of the Applicants and will answer questions from the Public Advocate, Commissioners, or Commission staff.
9. The Parties agree that Mr. Roger Cox and/or Mr. Jack Shultz may make a brief presentation on behalf of the Public Advocate. Mr. Cox and/or Mr. Shultz will answer questions of the Public Advocate from the Parties, Commissioners, or Commission staff.
10. A court reporter will record any testimony or questions provided at the Hearing.

Conditions of Approval

11. There will be no gain, loss or acquisition adjustment recorded on the books of Kinder Morgan or Source Gas Distribution, as a result of the Asset Transfer or Buy-Out Transaction, and none shall be reflected or recovered in rates to customers now or at any time in the future.
12. Any transaction costs related to the Asset Transfer and Buy-Out Transaction shall be excluded from Source Gas Distribution's utility accounts used to set rates and shall not be recovered from customers now or in the future. The annual report specified in Paragraph 21 _____ below will contain a summary of each category of costs, if any, that is reasonably identified as either a transaction or transition cost. The categories of costs to be included in the report shall include, but shall not be limited to: billing and collection; customer service; legal; accounting and finance; regulatory; general operations; and field operations.

13. There shall be no pledge of Nebraska jurisdictional utility assets in connection with the Asset Transfer or Buy-Out Transaction. Source Gas Distribution shall not guarantee the financial obligations (including debt obligations) of any of its affiliate or parent entities and shall not pledge its assets as security or collateral for any obligations not related to the provision of regulated utility services.

14. Any "reorganization or change of control" of KM Retail Holdco or Source Gas Distribution, within the meaning of Neb. Rev. Stat. § 66-1828, shall require approval of the Commission. In addition, KM Retail Holdco and Source Gas Distribution, on behalf of themselves and their successors and assigns, agree to submit timely written disclosure to the Commission and Public Advocate as to either of the following events: a) a change in ownership interest of ten percent (10%) or more of either entity or their respective successors and assigns; or b) a sale of any portion of Nebraska jurisdictional utility assets owned or controlled by such entities for a price that is equal to or greater than ten percent (10%) of the overall net book value of all Nebraska jurisdictional utility assets owned or controlled by such entities. In the event that Source Gas Distribution, or any successor or assign, no longer is a subsidiary of Kinder Morgan, the obligations set forth in this Paragraph 14 shall not apply to KM Retail Holdco, or its successors or assigns for events occurring after the date Source Gas Distribution ceases to be a subsidiary of Kinder Morgan.

15. Source Gas Distribution will adhere to and apply the existing tariffs of Kinder Morgan. Source Gas Distribution will provide safe, adequate and reliable service in accordance with the terms, conditions and rates currently set forth in those tariffs, and in accordance with any revisions to the tariffs as the Commission may approve or require in the future. Source Gas Distribution agrees to provide access to books and records pursuant to the Act and Commission

rules, including, as necessary, those of parent or affiliate companies, that are necessary to verify or examine transactions with any parent or affiliate companies that are not arm's length transactions and that directly affect Source Gas Distribution's regulated utility operations in Nebraska. In addition, Source Gas Distribution shall maintain the necessary books and records so as to provide an audit trail for all corporate or affiliate transactions directly affecting Source Gas Distribution's regulated utility operations in Nebraska. The annual report specified in Paragraph 21 below shall include a report regarding transactions with any parent or affiliate companies that are not arm's length transactions, if any. The report will include the following:

- (1) An organizational chart or summary describing the parent company and relevant subsidiaries;
- (2) A narrative description of each affiliate with which Source Gas Distribution does business, and a description of what portion of the affiliate's business comes from Source Gas Distribution; and
- (3) A report of the transactions between each affiliate and Source Gas Distribution, including a description of any inter-company loans.

16. Source Gas Distribution will maintain separate debt and stock/membership interests from Kinder Morgan, provided that Kinder Morgan may contribute equity capital or make loans to Source Gas Distribution subject to the terms of this Stipulation and applicable legal requirements. For ratemaking purposes, Source Gas Distribution intends to maintain a capital structure that is comparable to the capital structure described by Kinder Morgan in its rate case proceeding filed with the Commission at Docket NG-0036 and, in the future, shall propose a capital structure and cost of debt for ratemaking purposes that are reflective of a range of

capital structures and debt costs for comparable utility companies in the United States having an investment grade debt rating.

17. The Applicants do not expect any material changes in the management of Source Gas Distribution as a result of the Asset Transfer or Buy-Out Transaction. The jurisdictional utility business in Nebraska will continue to be operated and service will continue to be provided by Source Gas Distribution in essentially the same manner and with essentially the same personnel as Kinder Morgan has operated the business and provided service. Applicants acknowledge that personnel changes will occur over time as part of the normal course of business, including employee retirements. The annual report specified in Paragraph 21 below will contain a summary of employment levels (including changes in numbers of employees in particular job classifications) by department, division office, and/or operational business unit for Source Gas Distribution's Nebraska jurisdictional utility business.

18. There will be no change in gas supplies or upstream delivery arrangements as a result of the Asset Transfer or Buy-Out Transaction described in the Application. The existing gas supply and upstream delivery arrangements will continue to be safe, reliable and adequate after the Asset Transfer and Buy-Out Transaction.

19. There will be no material change in customer service or billing operations as a result of the Asset Transfer or Buy-Out Transaction. Source Gas Distribution may change customer service or billing vendors in the ordinary course of business, as long as its customer service and billing operations continue to reliably serve customers.

20. The jurisdictional utility cost of service in Nebraska will not be materially affected by the Asset Transfer or Buy-Out Transaction. The Parties acknowledge that Source Gas Distribution has agreed to file a Cost Assignment and Allocation Manual ("CAAM") with

the Colorado Public Utilities Commission and Public Service Commission of Wyoming. On or before December 31, 2007, Source Gas Distribution will file a copy of the CAAM for informational purposes with the Commission, with a copy to the Public Advocate.

21. Each year, beginning in 2008, within 60 days after the anniversary date of the close of the Buy-Out Transaction, Source Gas Distribution will submit to the Commission, with copy provided to the Public Advocate, an informational report which sets forth the annual compliance status of each of the commitments set forth in paragraphs 11, 12, 13, 14, 15, 17, 18, and 19 of the Conditions of Approval, as contained herein. Such annual compliance reports shall specify, to the extent that any commitments have not been met, corrective measures taken or proposed to be taken by Source Gas Distribution, and shall be subject to further Commission review with respect to such corrective measures. Beginning after such informational report is filed in 2012, Source Gas Distribution shall have the right to apply to the Commission, with copy provided to the Public Advocate, for an order extinguishing in whole or in part the requirements set forth in this paragraph.

Asset Transfer

22. The Applicants state that the proposed transfer of Kinder Morgan's Nebraska certificate of convenience and Nebraska retail utility assets to Source Gas Distribution is consistent with the public interest and will not adversely affect the utility's ability to serve its ratepayers. Subject to the terms of this Stipulation, the Public Advocate does not object to the Commission issuing an order finding (a) that the proposed transfer of Kinder Morgan's Nebraska certificate of convenience and Nebraska retail utility assets to Source Gas Distribution is consistent with the public interest within the meaning of Section 66-1821 of the Act, and (b) that the proposed Buy-Out Transaction, by which Kinder Morgan will become a privately-held

corporation, will not adversely affect the utility's ability to serve its ratepayers within the meaning of Section 66-1828 of the Act.

V. PURPOSE

This Stipulation is intended by the Parties to be a stipulation of the issues and hearing procedures identified by the Public Advocate and Commission Staff.

The Parties stipulate and agree that the proposals, positions and adjustments made or obtained in this Stipulation, whether express or implied, are made or obtained only in the spirit of compromise. The purpose of this Stipulation is to document the resolution of all issues in this proceeding, the lack of objection by the Public Advocate to the approval of the Asset Transfer, and the recommendation of Applicants for Commission approval of the Application. This Stipulation is not intended and does not bind either the Applicants or the Public Advocate to any position that may be taken by them in another docket or by any other filing made under the Act.

VI. JOINT MOTION

Subject to the conditions and reservations set forth herein, the Applicants and Public Advocate hereby jointly move the Commission to promptly issue an Order ruling on this Stipulation and the Application, in its entirety, without further condition or modification.

VII. CONDITION PRECEDENT

This Stipulation shall not become effective unless and until the Commission enters an Order approving this Stipulation in its entirety without condition or modification.

VIII. PRIVILEGE AND LIMITATION

This Stipulation is made pursuant to Nebraska law, and except as otherwise noted herein shall become binding upon the Parties upon its execution, provided, however, that if this Stipulation does not become effective in accordance with Article VII above, it shall be null, void

and privileged. This Stipulation is intended to relate only to the specific matters referred to herein; no party waives any claim or right which it may otherwise have with respect to any matter not expressly provided for herein; no party shall be deemed to have approved, accepted, agreed or consented to any ratemaking methodology, ring fencing conditions, corporate structure, or the resolution of any specific issue that may underlie or be implied by the provisions of this Stipulation or be prejudiced or bound thereby in any other current or future proceeding before the Public Service Commission.

IX. EFFECTIVENESS

This Stipulation shall become effective upon Commission approval without modification by a final Commission order. Such order becomes "final" either by issuance of a Commission order on rehearing or, if no rehearing request is filed, thirty (30) days after issuance of the Commission order approving the Stipulation pursuant to *Neb. Rev. Stat. § 75-136*. For purposes of this Stipulation and proceeding, the Public Advocate agrees not to seek rehearing of or appeal the Commission's order. Notwithstanding any other provision herein, this Stipulation shall be null and void in the event that the Asset Transfer and Buy-Out Transaction do not close, or in the event that the "Transaction" as defined in the Commission's Docket No. NG-0039 is approved by the Commission and closed, in which case the provisions of the Stipulation in that docket shall govern as set forth therein.

X. RESERVATIONS

A. This Stipulation is submitted pursuant to Nebraska law, and all Parties agree that, unless this Stipulation becomes effective as provided herein, this Stipulation and any and all discussions related thereto, shall be privileged and shall not be admissible in evidence or in any way used, described or discussed in any proceeding.

B. It is specifically understood and agreed that this Stipulation represents a negotiated Stipulation of the issues in this proceeding settled in a manner which is in the public interest. The provisions of this Stipulation are for purposes of Stipulation only and are not intended to have any precedential effect.

C. All Parties further understand and agree that the provisions of this Stipulation relate only to the specific matters referred to in this Stipulation and no party or person waives any claim or right which it otherwise may have with respect to any matters not expressly provided for in this Stipulation.

D. All Parties further reserve the right to withdraw their support for this Stipulation in the event that the Commission modifies the Stipulation and to contest any such Commission order modifying the Stipulation.

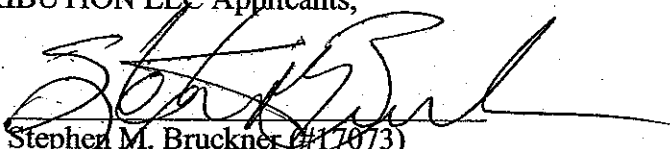
XI. CONCLUSION

WHEREFORE, for the reasons more fully described above, the Applicants respectfully request and the Public Advocate does not object to the Commission issuing an order granting approval of (i) the proposed transfer of Kinder Morgan's Nebraska certificate of convenience and other Nebraska retail utility assets to Source Gas Distribution pursuant to Section 66-1821 of the Act and (ii) the proposed Buy-Out Transaction, stating that it will not adversely affect the utility's ability to serve its ratepayers within the meaning of Section 66-1828 of the Act.

DATED February 9th, 2007.

**KINDER MORGAN, INC., KM RETAIL
UTILITIES HOLDCO LLC, SOURCE GAS
DISTRIBUTION LLC Applicants,**

By:

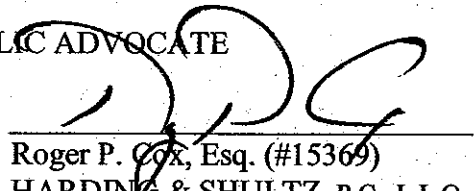

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